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U.S. RAILROAD RETIREMENT BOARD

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Federal Income Tax and Railroad Retirement Benefits

The following questions and answers describe the statements issued by the Railroad Retirement Board each January for Federal income tax purposes. Railroad retirement beneficiaries needing information about these statements, or tax withholding from their benefits, should contact the nearest office of the Railroad Retirement Board. For further Federal income tax information, railroad retirement beneficiaries should contact the nearest office of the Internal Revenue Service.

1. How are the annuities paid under the Railroad Retirement Act treated under the Federal income tax laws?

In most cases, part of a railroad retirement annuity is treated like a social security benefit for income tax purposes, while other parts of the annuity are treated like private and public service pensions for tax purposes. Consequently, most annuitants are sent two tax statements from the Railroad Retirement Board each January, even though they receive only a single annuity payment each month.

2. Which railroad retirement benefits are treated as social security benefits for Federal income tax purposes?

The part of a railroad retirement annuity equivalent to a social security benefit based on comparable earnings is treated for Federal income tax purposes the same way as a social security benefit. The amount of these benefits that may be subject to Federal income tax, if any, depends on the beneficiary's income.

If taxable income (taxable pensions, wages, interest, and dividends) and tax-exempt interest income, plus half of the amount of the social security equivalent benefit payments exceed:

- \$25,000 for an individual, \$32,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 50 percent of these railroad retirement benefit payments may be considered taxable income;
- \$34,000 for an individual, \$44,000 for a married couple filing jointly, and zero for a married individual who files separately but lived with his or her spouse any part of the year, up to 85 percent of these benefits may be taxable.

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3. Which railroad retirement benefits are treated like private and public service pensions for Federal income tax purposes?

Railroad retirement annuity payments exceeding social security equivalent payments, plus any vested dual benefits and supplemental annuities, are all treated like private and public service pensions for Federal income tax purposes. In some cases, primarily those in which early retirement benefits are payable to retired employees and spouses between ages 60 and 62, and some occupational disability benefits, the entire annuity may be treated like a private or public pension. This is because social security benefits based on age and service are not payable before age 62 and social security disability benefit entitlement requires total disability.

For annuities beginning after July 1, 1986, railroad retirement payments exceeding social security equivalent levels are generally taxable under the Internal Revenue Code General Rule or Simplified General Rule. For income tax purposes under these rules, contributory payments are subject to income tax immediately upon retirement, but are prorated to yield a tax-free amount based on an employee's previously-taxed pension contributions.

For railroad retirement annuitants, **employee contributions** (referred to by the IRS as an employee's investment in the contract (cost)) are considered to be the amount of railroad retirement payroll taxes paid by the employee over and above comparable social security payroll tax rates. Employee contributions are not a payment or income received during the tax year.

However, vested dual benefit payments and railroad retirement supplemental annuities are considered noncontributory and fully taxable. In addition, spouse annuity payments exceeding social security equivalent payments do not include a tax-free amount; these benefits are also fully taxable.

4. What information is shown on the railroad retirement tax statements sent to annuitants in January?

One statement, the blue and white Form RRB-1099 (or black and white Form RRB-1042S for nonresident aliens), shows the amount of any social security equivalent or special minimum guaranty payments made during the tax year, the amount of any such benefits that an annuitant may have repaid to the Board during the tax year, and the net amount of these payments after subtracting the repaid amount. The amount of any offset for workers' compensation and the amount of Federal income tax withheld from these payments are also shown.

The other statement, the green and white Form RRB-1099-R (for both U.S. citizens and nonresident aliens), shows the total amount of contributory railroad retirement benefits over and above social security equivalent benefits, plus any noncontributory vested dual benefits and/or supplemental annuities paid to the annuitant during the tax year, as well as the amount of an employee's railroad retirement payroll tax contributions. Also shown is the amount of Federal income tax withheld from these payments. In addition, the statement reflects the amount of any of these prior year benefits repaid by an annuitant to the Board during the tax year. However, this amount has not been subtracted from the gross amounts shown because its treatment depends on the years to which the repayment applies and its taxability in those years. To determine the year or years to which the repayment applies, annuitants should contact the Board.

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The total Part B Medicare premiums deducted from the railroad retirement annuity may also be shown on either Form RRB-1099 (Form RRB-1042S for nonresident aliens) or Form RRB-1099-R.

Copy B and/or Copy 2 of Form RRB-1099-R needs to be submitted with a tax return. Annuitants should retain copy C of all statements for their records, especially if they may be required to verify their income in connection with other Government programs.

5. Does Form RRB-1099-R show the taxable amount of any contributory railroad retirement benefits or just the total amount of such benefits paid during the tax year?

Since 1993, Form 1099-R shows the total amount of any contributory railroad retirement benefits paid over and above social security equivalent benefits during the tax year. The Board does not calculate the taxable amounts.

Annuitants needing information about the tax treatment of railroad retirement benefits over and above social security equivalent benefits should refer to IRS Publication 575, **Pension and Annuity Income**, and Publication 939, **General Rule for Pensions and Annuities**.

6. What other information is included with the railroad retirement benefit statements?

Included with the statements are detailed explanations of all the items on the statements and the toll-free telephone number and Web site address of the Internal Revenue Service.

7. What if a person receives social security as well as railroad retirement benefits?

Railroad retirement annuitants who also received social security benefits during the tax year receive a Form SSA-1099 (or Form SSA-1042S if they are nonresident aliens) from the Social Security Administration. They should add the net social security equivalent or special guaranty amount shown on Form RRB-1099 (or Form RRB-1042S) to the net social security income amount shown on Form SSA-1099 (or Form SSA-1042S) to get the correct total amount of these benefits. They should then enter this total on the Social Security Benefits Worksheet in the instructions for Form 1040 or 1040A to determine if part of their social security and railroad retirement social security equivalent benefits is to be considered as taxable income.

Additional information on the taxability of these benefits can be found in IRS Publication 915, **Social Security and Equivalent Railroad Retirement Benefits**.

8. Are the residual lump sums, lump-sum death payments or separation allowance lump-sum amounts paid by the Railroad Retirement Board subject to Federal income tax?

No. These amounts are not subject to Federal income tax.

9. Are Federal income taxes withheld from railroad retirement annuities?

Yes, and the amounts withheld are shown on the statements issued by the Board each year. However, an annuitant may request that Federal income taxes not be withheld, unless the annuitant is a nonresident alien or a U.S. citizen living outside the United States.

Annuitants can voluntarily choose to have Federal income tax withheld from their social security equivalent payments. To do so, they must complete IRS Form W-4V, **Voluntary Withholding**

Certificate, and send it to the Board. They can choose withholding from their social security equivalent payments at the following rates: 7 percent, 10 percent, 15 percent, or 27 percent.

Annuitants who wish to have Federal income taxes withheld from the portions of their annuity over and above social security equivalent benefits must complete a tax withholding election on Form RRB W-4P, **Withholding Certificate For Railroad Retirement Payments**, and send it to the Board. An annuitant is **not** required to file Form RRB W-4P. If that form is not filed, the Board will withhold taxes only if the combined portions of an individual's annuity over and above social security equivalent benefits exceed \$1,305.51 a month in 2003. In that case, the Board withholds taxes as if the annuitant were married and claiming three allowances.

10. How is tax withholding applied to the railroad retirement benefits of nonresident aliens?

Under the Internal Revenue Code, nonresident aliens are subject to a 30-percent tax on income from sources within the United States not connected to a U.S. trade or business. The 30-percent rate applies to all annuity payments exceeding social security equivalent payments and to 85 percent of the annuity portion treated as a social security benefit. The Code also requires the Board to withhold the tax. The tax can be at a rate lower than 30 percent or can be eliminated entirely if a tax treaty between the United States and the country of residence provides such an exemption, and the nonresident alien completes and sends Form RRB-1001, **Nonresident Questionnaire**, to the Board. Form RRB-1001 secures citizenship, residency and tax treaty claim information for nonresident beneficiaries (nonresident aliens or U.S. citizens residing outside the United States).

Form RRB-1001 is sent by the Board to nonresident aliens every three years to renew the claim for a tax treaty exemption. **Failure by a nonresident alien to complete Form RRB-1001 will cause loss of the exemption until the exemption is renewed.** Such renewals have no retroactivity. Also, a nonresident alien must include his or her United States taxpayer identifying number on Form RRB-1001. Otherwise, any tax treaty exemption claimed on the form is not valid. The majority of nonresident aliens receiving annuities from the Board are citizens of Canada, which has a tax treaty with the United States.

If a Canadian citizen claims an exemption under the tax treaty, no tax is withheld from the annuity portion equivalent to a social security benefit and a withholding rate of only 15 percent is applied to those annuity payments exceeding social security equivalent payments.

Additional information concerning the taxation of nonresident aliens can be found in IRS Publication 519, **U.S. Tax Guide for Aliens**.

11. Are unemployment benefits paid under the Railroad Unemployment Insurance Act subject to Federal income tax?

All unemployment benefit payments are subject to Federal income tax. Each January the Board sends Form 1099-G to individuals, showing the total amount of railroad unemployment benefits paid during the previous year.

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12. Are sickness benefits paid by the Railroad Retirement Board subject to Federal income tax?

Sickness benefits paid by the Board, except for sickness benefits paid for on-the-job injuries, are subject to Federal income tax under the same limitations and conditions that apply to the taxation of sick pay received by workers in other industries. Each January the Board sends Form W-2 to affected beneficiaries. This form shows the amount of sickness benefits that each beneficiary should include in his or her taxable income.

13. Does the Board withhold Federal income tax from unemployment and sickness benefits?

The Board withholds Federal income tax from unemployment and sickness benefits only if requested to do so by the beneficiary. A beneficiary can request withholding of 10 percent of his or her unemployment benefits by filing Form W-4V with the Board. A beneficiary can request withholding from sickness benefits by filing Form W-4S.

14. Are railroad retirement and railroad unemployment and sickness benefits paid by the Board subject to State income taxes?

The Railroad Retirement and Railroad Unemployment Insurance Acts specifically exempt these benefits from State income taxes.

15. Can a railroad employee claim a tax credit on his or her Federal income tax return if the employer withheld excess railroad retirement taxes during the year?

If any one railroad employer withheld more than the annual maximum amount, the employee must ask that employer to refund the excess. It cannot be claimed on the employee's return.

16. Can a railroad employee working two jobs during the year get a tax credit if excess retirement payroll taxes were withheld by the employers?

Railroad employees who also worked for a nonrailroad social security covered employer in the same year may, under certain circumstances, receive a tax credit equivalent to any excess social security taxes withheld.

Employees who worked for two or more railroads during the year, or who had tier I taxes withheld from their Railroad Retirement Board sickness benefits in addition to their railroad earnings, may be eligible for a tax credit of any excess tier I or tier II railroad retirement taxes withheld. The amount of tier I taxes withheld from sickness benefits paid by the Board is shown on Form W-2 issued to affected beneficiaries. Employees who had tier I taxes withheld from their supplemental sickness benefits may also be eligible for a tax credit of any excess tier I tax.

Such tax credits may be claimed on an employee's Federal income tax return.

Employees who worked for two or more railroads, received sickness benefits or had both railroad retirement and social security taxes withheld from their earnings should see IRS Publication 505, **Tax Withholding and Estimated Tax**, for information on how to figure any excess railroad retirement or social security tax withheld.